MEMORANDUM

Date: October 25, 2013

TO: Town Commission

FROM: Dave Bullock, Town Manager

SUBJECT: Resolution 2013-35, Establishing a Fund Balance Policy

At the October 21, 2013 Regular Workshop, the Town Commission considered Resolution 2013-35 which adoptes a formal Fund Balance Policy for the General Fund.

The Town Investment Advisory/Finance Committee received presentations on July 10, 2013, and October 11, 2013, from the Town Manager and Finance Director pertaining to the development and adoption of a Fund Balance Policy.

While the Town has continually strived to maintain a total General Fund fund balance of 90 operating days, the proposed Resolution formalizes the policy in accordance with Government Finance Officers Association (GFOA) recommended best practices and memorializes the Town's compliance with the Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

The Policy lays out its purpose, definitions, and policies related to Non-spendable, Restricted, Committed, Assigned, and Unassigned classifications of fund balance. It also addresses the review of fund balance as part of the annual budget process and spending order for GASB Statement No. 54 reporting purposes.

There was a consensus to forward Resolution 2013-35 to the November 4, 2013 Regular Meeting for formal action.

RESOLUTION 2013 - 35

A RESOLUTION OF THE TOWN COMMISSION OF THE TOWN OF LONGBOAT KEY, FLORIDA, ESTABLISHING A TOWN COMMISSION POLICY ENTITLED FUND BALANCE POLICY TO PROVIDE FOR THE CONTINUITY OF OPERATIONS IN ADVERSE CONDITIONS AND PROVIDE FOR MITIGATION OF CURRENT AND FUTURE RISKS; PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, The Town Commissioners of the Town of Longboat Key realize that it is essential for governments to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and,

WHEREAS, Town of Longboat Key ("Town's") reserve policies are based on sound fiscal principles designed to allow the Town to maintain continuity of operations in adverse conditions while being mindful of the fiduciary responsibility to taxpayers, both current and future generations; and,

WHEREAS, the Town realizes that adequate fund balance levels are an essential component of the Town's overall financial management strategy and a key factor in external agencies' measurement of the Town's financial strength; and,

WHEREAS, various bond rating agencies recognize that the best reserve policies provide both specificity and flexibility, accomplishing one or more of at least three main criteria: establishing a target level of reserves, or a reserve floor; specifying the appropriate circumstances for drawing down reserves, and directing the replenishment of reserves; and,

WHEREAS, the Town seeks to establish a fund balance policy that secures and maintains investment-grade credit ratings, meets seasonal shortfalls in cash flow, and reduces susceptibility to emergency or unanticipated expenditures and/or revenue shortfalls; and,

WHEREAS, The Town lies within a coastal zone highly susceptible to hurricane and storm damage; and,

WHEREAS, the Town wishes to mitigate other forms of uncertainty such as: unanticipated changes in the tax and spending policies of federal and state governments, imposition of mandates by federal and state governments or the courts, financial impacts of labor agreements, particularly those stemming from collective bargaining, and unforeseen increases in energy costs; and,

WHEREAS, the Town recognizes that fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the Town, in accordance with policies established by the Town Commission; and,

WHEREAS, the Government Finance Officers Association of the United States and Canada ("GFOA") recommends a minimum general fund reserve of no less than two months of regular operating expenditures; and

WHEREAS, the GFOA issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types; and,

WHEREAS, the Town finds that it is in the best interest of the Town and its residents to adopt a fund balance policy that is consistent with the recommendations of the GFOA and GASB Statement No. 54.

NOW, THEREFORE, be it resolved by the Town Commission of the Town of Longboat Key, Florida, that:

SECTION 1. All of the above Whereas clauses are true and correct and are hereby fully incorporated by reference.

SECTION 2. The Town of Longboat Key hereby establishes and adopts the attached Fund Balance Policy, as set forth in Exhibit A. The Fund Balance Policy shall be retroactively effective as of July 1, 2012.

SECTION 3. This Resolution shall become effective immediately upon adoption.

Passed by the Town Commission of the Town of Longboat Key on the _____ day of _____, 2013.

_____
James L. Brown, Mayor

ATTEST:

_____
Trish Granger, Town Clerk
Attachment: Exhibit "A"

TOWN OF LONGBOAT KEY

FUND BALANCE POLICY

Developed and approved under the Authority of the Town Commission.

TOWN OF LONGBOAT KEY, FLORIDA
FUND BALANCE POLICY

A. DEFINITIONS

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, the Town shall classify governmental fund balances as follows:

Fund Balance - As defined by the *Governmental Accounting, Auditing and Financial Reporting* of the Government Finance Officers Association, fund balance is "The difference between assets and liabilities reported in a governmental fund."

Assigned Fund Balance – Includes spendable fund balance amounts established by management of the Town that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by the Town Commissioners or a body or official to which the Town Commissioners have delegated authority, which is the Town Manager, to assign amounts to be used for specific purposes. Appropriations of existing fund balances to eliminate deficits in a future budget and encumbrances are considered assignments of fund balances.

Committed Fund Balance – Amounts that can be used only for the specific purposes determined by a formal action (ordinance) of the Town Commission, the Town's highest level of decision making authority. Commitments may be changed or lifted only by the Town Commission taking the same formal action (ordinance) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Non-Spendable Fund Balance – Amounts that cannot be spent because they are (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted Fund Balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Reservations of Fund Balance – Reserves established by the Town Commission (*committed fund balance*) or Town management (*assigned fund balance*).

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Unrestricted Fund Balance – The total of committed fund balance, assigned fund balance, and unassigned fund balance.

B. PURPOSE

The Town hereby establishes and will maintain a Fund Balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Fund Balance shall be composed of non-spendable, restricted, committed, assigned and unassigned amounts.

A Fund Balance Policy is adopted in order to secure and maintain investment-grade credit ratings, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures and/or revenue shortfalls. Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the Town, in accordance with policies established by the Town Commission.

This Fund Balance Policy establishes:

a) Fund balance policy for the general fund;
b) Reservations of fund balance for the general fund;
c) The method of budgeting the amount of estimated unrestricted fund balance (also known as *estimated beginning fund balance*) available for appropriation during the annual budget adoption process (prior to the actual, audited fund balance being known) and what actions may need to be taken if the actual fund balance is significantly different than the budgeted fund balance; and,
d) Establish the spending order of fund balances.

C. FUND BALANCE POLICY (GENERAL FUND)

1. Restricted Fund Balance

There is no restricted fund balance in the General Fund. Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation will be budgeted and reported in special revenue funds, capital project funds or debt service funds.

2. Committed Fund Balance

Commitment of fund balance may be made for such purposes including, but not limited to, a) major maintenance and repair projects; b) meeting future obligations resulting from a natural disaster; c) accumulating resources pursuant to stabilization arrangements; d) establishing reserves for disasters; and/or, e) for setting aside amounts for specific projects.

Commitment of fund balance may be made from time-to time by ordinance of the Town Commission. GASB has clarified that budget ordinances cannot commit fund balance, thereby requiring a separate ordinance. Commitments may be changed or lifted only by the Town Commission taking the same formal action that imposed the constraint originally (ordinance). The use (appropriation) of committed fund balances will be considered in conjunction with the annual budget adoption process.

3. Assigned Fund Balance

Assignment of fund balance may be made, from time-to time, by intent of the Town Commission or a body or official to which the Town Commissioners have delegated that authority, which is the Town Manager.

Assigned fund balance shall reflect management's intended use of resources as set forth in the annual budget (and any amendments thereto). Assigned fund balance may or may not be appropriated for expenditure in the subsequent year depending on the timing of the project/reserve for which it was assigned.

Assignment of fund balance may be a) made for encumbrances of specific purchases open at the end of a fiscal year; and/or b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

The Town may establish the following assigned fund balance reserves in the General Fund:

a) Assignment to Subsequent Year's Budget – The subsequent year's budget fund balance reserve is assigned by Town management as set forth in the annual budget (and any amendments thereto) to appropriate a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues. Care shall be taken to avoid a major fluctuation in the tax rate in succeeding years.
b) Assigned to Encumbrances – All open purchase orders encumbered at the end of the fiscal year shall be deemed an assignment of fund balance.
c) Disaster Reserve – The disaster reserve fund balance as set forth in the annual budget (and any amendments thereto) ensures the maintenance of services to the public during disaster situations such as, but not limited to, hurricanes.
d) Red Tide Reserve – The red tide reserve fund balance as set forth in the annual budget (and any amendments thereto) ensures services are available to address environmental damage and related costs from algae bloom or fish kills.
e) Pension Reserve – The pension reserve fund balance is committed by the Town Commission for the purpose of reducing pension unfunded liabilities.
f) Contingency Reserve - The Town may maintain a contingency reserve for unanticipated expenditures of a non-recurring nature, including liabilities for compensated absences and unexpected immediate increases in service delivery costs, or to maintain service levels in the event that an economic downturn should cause a shortfall in revenues.

4. Non-Spendable Fund Balance

Non-spendable fund balance is established to report items that are not expected to be converted to cash such as inventory and prepaid items; items not currently in cash form such as the long-term amount of loans and notes receivable as well as property acquired for resale; and, items legally or contractually required to be maintained intact such as the corpus (or principal) of a permanent fund.

5. Minimum Level of Unassigned Fund Balance

Unassigned fund balance is the residual classification for the general fund and represents fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

The desired unassigned general fund balance shall be not less than two months or 16% of general fund operating expenditures. The desired combined unrestricted available fund balances should not be less than three months or 25%. The three month minimum is based on the caveat that there is sufficient cash available for borrowing in other funds in case of a natural disaster. For purposes of this calculation, total operating expenditures shall include transfers out and contingency line items but shall exclude capital outlay.

If, after the annual audit, prior committed or assigned fund balance causes the unassigned fund balance to fall below two months or 16% of general fund operating expenditures, or combined unrestricted fund balances fall below three months or 25%, the Town Manager will so advise Town Commission in order for the necessary action to be taken to restore the unassigned fund balance to acceptable levels within two budget cycles. The Town Manager will prepare and submit a plan for committed and/or assigned fund balance reduction, expenditure reductions and/or revenue increases to Town Commission.

Minimum target levels of unassigned fund balance will be reviewed annually for the following circumstances which often justify a significantly higher minimum target level:

a) Significant volatility in operating revenues or operating expenses;
b) Potential drain on resources from other funds facing financial difficulties;
c) Exposure to natural disasters (e.g. hurricanes)
d) Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;
e) Rapidly growing budgets; or
f) Disparities in timing between revenue collections and expenditures.

6. Use of Unrestricted Fund Balance

The use of unrestricted fund balances (committed, assigned or unassigned) will be allowed under the following circumstances:

a) Operating emergencies;
b) Unanticipated budgetary shortfalls.

D. BUDGETING (GENERAL FUND)

1. Appropriation of Unrestricted Fund Balance

The actual amount of unrestricted fund balance (total of committed fund balance, assigned fund balance and unassigned fund balance) is not known until the completion of the annual audit which takes place between three to six months after the end of the fiscal year being audited. However, an estimate of unrestricted fund balance (also called estimated beginning fund balance) must be made during the annual budget adoption process (July through September) which is prior to the end of the fiscal year, September 30th.

2. Estimated Beginning Fund Balance

In order to achieve the most accurate estimate possible, the Town Manager or designee shall project both Sources of Funds (revenues, prior years unrestricted fund balances carried forward and other financing sources) and Uses of Funds (operating and non-operating expenditures), including accruals, for each department in each governmental fund through September 30th of the then current fiscal year. These projections will be shown in a separate column entitled "Estimated Actual" for each fund in the proposed, tentative and final budget documents. The difference between the estimated actual sources of funds and estimated actual uses of funds is the calculated estimated beginning fund balance for the subsequent fiscal year. If planned for use in the subsequent fiscal year, committed and assigned fund balance may be included in the estimated beginning fund balance.

3. Estimated Ending Fund Balance

For the year being budgeted, a calculation of estimated ending fund balance shall also be made. This calculation shall be the difference between the budgeted sources of funds and the budgeted uses of funds as described above.

Since the uses of funds are restricted, committed or assigned in all other governmental fund types there is no policy to the amount of ending fund balance unless the project is completed and the fund should be closed. In this situation, a residual equity transfer will be made to zero-out any remaining fund balance.

If, after the annual audit, the actual general fund unassigned fund balance is greater than 90 days or 25 percent of operating expenditures in the general fund, the excess may be used in one or a combination of the following ways:

a) Left in the general fund to earn interest and roll forward into the subsequent year's beginning fund balance;
b) Appropriated by resolution of Town Commission for a one-time expenditure or opportunity that does not increase recurring operating costs;
c) Committed to establish or increase a formal stabilization arrangement or reserve (including but not limited to economic stabilization, contingency reserves or disaster reserves); or
d) Transfer such excess to Capital Reserve Funds for future capital projects.

E. SPENDING ORDER OF FUND BALANCES

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it such as in grant agreements requiring dollar for dollar spending.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

F. ANNUAL REVIEW AND DETERMINATION OF FUND BALANCE POLICY

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process, and the amounts of restricted, committed, assigned, non-spendable and the minimum level of unassigned fund balance shall be determined during this process.

G. ADDITIONAL INFORMATION, REQUIREMENTS/RESPONSIBILITIES

All corresponding calculations and interpretation of calculations of a definitive nature will be determined by the Town Manager or his designee. This policy will be reviewed internally every three years or when deemed necessary by the Town Manager with advice of Finance Director for the possibility of amendments to be presented to the Town Commission.

H. EFFECTIVE DATE

This Policy shall take effect retroactively upon adoption and will be applied beginning with the preparation of the Town's September 30, 2013 Comprehensive Annual Financial Report and adoption of the Town's Fiscal Year 2013-14 Budget.

TOWN OF LONGBOAT KEY

Fund Balance Policy
General Fund

November 4, 2013

Regular Meeting

FUND POLICY DEVELOPMENT

GASB STATEMENT NO. 54 Fund Balance Reporting and Governmental Fund Type Definitions

- Effective Fiscal Year ending September 30, 2012
- Clarified and defined governmental fund types
- Created new terminology for fund balance classifications
- Requires minimum fund balance policy disclosures

PURPOSE OF THE POLICY

- Is to secure and maintain an investment grade credit rating
- Meet seasonal shortfalls in cash flow
- Reduce susceptibility to emergency or unanticipated expenditures and or revenue shortfalls
  - Mandates – federal and state
  - Labor agreements
  - Hurricane disasters
- Allow compliance with GASB54
- Follow GFOA Best Practices

DEFINITIONS

- Fund Balance is Broken out into classes
  1. Non-spendable
  2. Restricted
  3. Unrestricted
     a. Committed
     b. Assigned
     c. Unassigned
- Reservations of Fund Balance are also sometimes referred to as Committed or Assigned

CLASSES OF FUND BALANCE

- **Nonspendable** – Items which are not in spendable form such as inventory or prepaid assets
- **Restricted** – There is no restricted class for the General Fund. Amounts that can be spent only for specific purposes stipulated by external sources are reported in other funds.
- **Committed** – Must be made by separate Ordinance of the Town, exclusive of the annual budget ordinance. GASB has clarified that budget ordinances cannot commit fund balance.

CLASSES OF FUND BALANCE CONT.

- **Assigned** – Intent of Town Commission or delegated authority (Town Manager) to use fund balance for specific reason such as:

✓ Outstanding encumbrances

✓ Assignment to Subsequent years budget

✓ Pension Reserve

✓ Disaster Reserve

CLASSES OF FUND BALANCE CONT.

- **Unassigned** – (Formerly called Unreserved and Undesignated)

  Residual classification of fund balance which has not been restricted, committed, or assigned.

MINIMUM TARGET LEVEL OF UNASSIGNED FUND BALANCE

Town Manager/Finance Committee recommendation

- The desired unassigned general fund balance shall be not less than two months or 16% of general fund operating expenditures.

- The desired combined unrestricted available fund balances should not be less than three months or 25%.

- The three month minimum is based on the caveat that there is sufficient cash available for borrowing in other funds in case of a natural disaster. For purposes of this calculation, total operating expenditures shall include transfers out and contingency line items but shall exclude capital outlay.

PROJECTED ENDING FY14 FUND BALANCE USING A MILL RATE OF 2.0760

			Number of Days	Percent
FY13 Projected Ending Fund Balance		$ 3,644,154	90 days	24.70%
FY 14 Budgeted Revenues	$ 15,635,660			
FY 14 Budgeted Expenditures	(15,425,585)			
FY 14 Increase in Fund Balance		210,075		
FY14 Ending Fund Balance		3,854,229	95 days	26.10%
Amount Assigned to Pension Reserves		(1,610,075)		
FY14 Unassigned Fund Balance		$ 2,244,154	55 days	15.20%

The desired unassigned general fund balance shall be not less than two months or 16% of general fund operating expenditures.

The desired combined unrestricted available fund balances should not be less than three months or 25%.

The three month minimum is based on the caveat that there is sufficient cash available for borrowing ***in other funds*** in case of a natural disaster.

RESTORING FUND BALANCE TO TARGET LEVELS

- If, after the annual audit, prior committed or assigned fund balance causes the unassigned fund balance to fall below two months or 16% of general fund operating expenditures, or combined unrestricted fund balances fall below three months or 25%, the Town Manager will so advise Town Commission in order for the necessary action to be taken to restore the unassigned fund balance to acceptable levels within two budget cycles.

- The Town Manager will prepare and submit a plan for committed and/or assigned fund balance reduction, expenditure reductions and/or revenue increases to Town Commission.

ANNUAL REVIEW OF TARGET LEVELS

Minimum target levels of unassigned fund balance will be reviewed annually for the following circumstances which often justify a significantly higher minimum target level:

- **Significant volatility in operating revenues or operating expenses;**
- **Potential drain on resources from other funds facing financial difficulties;**
- **Exposure to natural disasters (e.g. hurricanes)**
- **Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;**
- **Rapidly growing budgets; or**
- **Disparities in timing between revenue collections and expenditures**

QUESTIONS?

End of Agenda Item